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NON-CONFIDENTIAL
VERSION

November 5, 2001

FILED ELECTRONICALLY

Ms. Gloria Blue
Executive Secretary, Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: Certain Steel - Request for Proposals on Adjustment Actions

Dear Ms. Blue:

On behalf of Mills Iron Works, Inc. ("Mills"), Trinity Fitting Group, Inc. ("Trinity"), and Tube Forgings of America, Inc. ("TFA"), U.S. producers of carbon steel butt-weld pipe fittings, and pursuant to the Trade Policy Staff Committee's notice requesting comments,¹ enclosed please find the non-confidential version of these firms' written proposals on adjustment actions.

¹ Trade Policy Staff Committee; *Public Comments on Potential Action Under Section 203 of the Trade Act of 1974 With Regard to Imports of Certain Steel*, 66 Fed. Reg. 54321 (October 26, 2001). One of the steel products covered by the Trade Policy Staff Committee's *Federal Register* notice is carbon and alloy flanges, fittings, and tool joints (steel product 6), which encompasses carbon steel butt-weld pipe fittings.

Please feel free to contact the undersigned should you have any questions.

Respectfully submitted,

/s/

Cheryl Ellsworth
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BUSINESS CONFIDENTIAL INFORMATION
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**BEFORE THE
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
TRADE POLICY STAFF COMMITTEE**

**NON-CONFIDENTIAL
VERSION**

**PROPOSALS REGARDING ACTIONS TO FACILITATE POSITIVE
ADJUSTMENT TO IMPORT COMPETITION**

**FILED ON BEHALF OF
MILLS IRON WORKS, INC.,
TRINITY FITTING GROUP, INC., AND
TUBE FORGINGS OF AMERICA, INC.**

**STEEL PRODUCT 6:
CARBON AND ALLOY STEEL
FLANGES, FITTINGS, AND TOOL JOINTS**

November 5, 2001

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EXECUTIVE SUMMARY

- On October 22, 2001, the International Trade Commission (“Commission”) made a unanimous affirmative determination that imports of carbon steel fittings, flanges, and tool joints (“fittings”) were a substantial cause of serious injury to the domestic industry producing those articles.
- The Commission also determined that imports of fittings from both Canada and Mexico, considered individually, accounted for a substantial share of total imports, and that imports of fittings from these countries contributed importantly to the serious injury to the domestic industry.
- The serious injury suffered by the domestic industry producing fittings was cumulative. Import volumes rose dramatically over the past 5 years, accompanied by substantial margins of underselling. Competition from these imports resulted in substantial losses in market share and plummeting profit margins for U.S. fittings producers.
- One of the products included within the fittings product grouping is carbon steel butt-weld pipe fittings (“BWPF”).
- If meaningful relief is granted, domestic BWPF producers Mills Iron Works, Inc., Trinity Fitting Group, Inc., and Tube Forgings of America, Inc. propose to take specific actions to facilitate their positive adjustment to import competition. Generally speaking, these actions include capital investment in production equipment and training, consolidation of facilities, expanding product lines, and exploration of new business relationships that will facilitate domestic fittings’ speed to market.

I. Introductory Statement

Effective June 22, 2001, following receipt of a request from the United States Trade Representative (“USTR”), the International Trade Commission (“Commission”) instituted investigation No. TA-201-73 under section 202 of the Trade Act of 1974 (19 U.S.C. §2252) concerning certain steel products.² On October 22, 2001, the International Trade Commission (“Commission”) made a unanimous affirmative determination that imports of carbon steel fittings, flanges, and tool joints (“fittings”) were a substantial cause of serious injury to the domestic industry producing those articles.³ On October 26, 2001, the USTR’s Trade Policy Staff Committee (“TPSC”) published a notice requesting comments on issues related to the recommendation that the interagency group makes as to what action the President should take under 19 U.S.C. §2253(a) to facilitate efforts by the domestic industries producing certain steel products to make a positive adjustment to import competition and provide greater economic benefits than costs.⁴ One

² *Steel: Institution and scheduling of an investigation under section 202 of the Trade Act of 1974* (19 U.S.C. 2252), 66 Fed. Reg. 35267 (July 3, 2001). On July 26, 2001, the Commission received a resolution adopted by the Committee on Finance of the United States Senate that requested that the Commission undertake an investigation under Section 202 of the Trade Act of 1974 with respect to an identical list of steel products. The Commission consolidated the investigation requested by the Committee on Finance with investigation No. TA-201-73, instituted at the request of the USTR. *Consolidation of Senate Finance Committee Resolution requesting a section 201 investigation with the investigation requested by the United States Trade Representative on June 22, 2001*, 66 Fed. Reg. 44158 (August 22, 2001).

³ The Commission defined this product grouping, *i.e.*, Product Group 22, as follows: “{c}arbon and alloy fittings and flanges (“fittings”) are generally used for connecting the bores of two or more pipes or tubes together, or for connecting a pipe or tube to some other apparatus, or for closing the tube aperture. This category also includes tool joints for welding onto lengths of unfinished drill pipe to produce finished drill pipe.” *See* Staff Report to the Commission on Investigation No. TA-201-73 (October 12, 2001) (“Final Staff Report”) at TUBULAR-4.

⁴ *Trade Policy Staff Committee; Public Comments on Potential Action Under Section 203 of the Trade Act of 1974 With Regard to Imports of Certain Steel*, 66 Fed. Reg. 54321 (October 26, 2001) (“TPSC Comments Notice”).

of the steel products identified in the TPSC's *Federal Register* notice was carbon and alloy flanges, fittings, and tool joints, identified as steel product 6.

These comments are filed on behalf of Mills Iron Works, Inc. ("Mills"), Trinity Fitting Group, Inc. ("Trinity"), and Tube Forgings of America, Inc. ("TFA"), firms that manufacture carbon steel butt-weld pipe fittings ("BWPF"), an article within the carbon and alloy flanges, fittings, and tool joints product grouping.⁵ The comments constitute the proposals requested in the TPSC Comments Notice regarding the actions Mills, Trinity, and TFA intend to take to facilitate positive adjustment to import competition in the event that effective remedial actions are implemented.

In addition to its affirmative finding of serious injury with respect to imports of fittings, on October 22, 2001 the Commission also determined, pursuant to 19 U.S.C. §3371, that imports of fittings from both Canada and Mexico, considered individually, accounted for a substantial share of total imports, and that imports of fittings from these countries contributed importantly to the serious injury to the domestic industry. Based on those determinations, the remedial measures resulting from this investigation should apply to all imports of fittings, including those from Canada and Mexico. To ensure that the remedial measures it recommends to the President are truly effective, the TPSC's recommendation must specify that these measures apply to all imports of fittings, including those from Canada and Mexico. The adjustment actions proposed by Mills, Trinity, and TFA presume that remedial actions will include imports from Canada and Mexico.

⁵ BWPF includes finished and unfinished carbon steel BWPF, both those having an inside diameter not exceeding 360 millimeters classified in HTSUS subheading 7307.93.3000 ("small diameter"), and those with an inside diameter larger than 360 millimeters classified in HTSUS subheading 7307.93.9030 ("large diameter"). *See id.*

II. Current Problems Affecting the BWPF Industry's Ability to Compete with Imports

The problems affecting the BWPF industry's inability to compete with imports are evident from the data collected by the Commission on the fittings product grouping.

First, while imports of fittings increased sharply during the period of investigation (30.8 percent by quantity between 1996 and 2000), increases in recent years have been particularly marked: imports rose by 15.6 percent between 1998 and 2000, and by 32.1 percent comparing the first half of 2000 with the first half of 2001.⁶ Second, the share of the U.S. fittings market held by imports, by quantity, increased from 35.5 percent in 1998 to 41.7 percent in 2000, or by 17 percent.⁷ The U.S. market share held by imports rose even more sharply comparing the interim periods, increasing from 39.0 percent in the first half of 2000 to 46.7 percent in the first half of 2001.⁸

Also, as import volumes and import market share increased, domestic fittings producers' net commercial sales volume followed a steady downward path, dropping by 18 percent in volume between 1997 and 2000.⁹ The value of net commercial sales fell at an even greater rate between 1997 and 2000, declining by 19 percent. However, in 2001, the paths of volume and value diverge. The volume of net commercial sales in interim 2001 continued the downward trend of the previous years, and was more than 7,000 tons lower than in interim 2000.¹⁰ In contrast, net commercial sales in interim 2001 were

⁶ Final St aff Report at TUBULAR-15, Table TUBULAR-8.

⁷ *Id.* at TUBULAR-53, Table TUBULAR-45, which calculates market share as imports' percentage of U.S. consumption.

⁸ *Id.*

⁹ *Id.* at TUBULAR-29, Table TUBULAR-20.

¹⁰ *Id.*

slightly higher than in interim 2000.¹¹ Throughout the period examined by the Commission, 1996 through the first half of 2001, domestic producers were faced with aggressive competition from imports. Imported BWPF consistently undersold domestic BWPF, by margins up to 36.5 percent.¹²

These data reflect the struggles of domestic fittings producers to cope with increasing quantities of low-priced imports. Between 1996 and 2000, domestic producers tried, but failed, to maintain market share, and as a result domestic prices were severely depressed. In the first half of 2001, domestic producers sold a smaller quantity of fittings at marginally higher prices, thereby ceding an even greater share of the market to imports.

Moreover, as highlighted by the Commission staff, the serious injury suffered by the domestic industry producing fittings was cumulative. For example, more domestic market share was overtaken by imports in every year beginning in 1997,¹³ and continuing into interim 2001. Domestic operating profit decreased steadily from 8.9 percent in 1996 to a loss in 2000, with 7 of 17 producers reporting operating losses in the first half of 2001.¹⁴ Plummeting profits forced domestic fittings producers to shelve planned capital investments necessary to maintain their production facilities at state of the art levels, to improve their efficiency, and to maintain or expand product lines. Investments have been made only on an “as needed” basis to maintain and repair existing equipment or to replace irreparable equipment. The Commission’s data demonstrate the 41 percent

¹¹ *Id.*

¹² *Id.* at TUBULAR-86, Table TUBULAR-67.

¹³ *Id.* at TUBULAR-53, Table TUBULAR-45.

¹⁴ *Id.* at TUBULAR-29, Table TUBULAR-20.

decline in capital investment between 1996 and 2000, as relentless import competition caused producers and their lenders to lose confidence in the ability to achieve a favorable return on such investments.¹⁵

While Mills, Trinity, and TFA intend to implement these abandoned plans and undertake new investments if effective relief from imports is imposed, the TPSC must recognize that it will take time for domestic producers to regain the lost market share and profitability that will fuel renewed capital investment. Therefore, the adjustment plans detailed *infra* presume that any relief measures will be imposed for a duration sufficient for domestic producers to obtain necessary financing and to acquire, install, bring online, and benefit from sales of fittings produced on new equipment.

III. Proposals on Adjustment Actions that Domestic Producers Would Undertake If the President Implements Effective Relief Measures

This section details the actions that Mills, Trinity, and TFA hope to take to facilitate their positive adjustment to import competition. Generally speaking, these actions include capital investment in production equipment and training, consolidation of facilities, expanding product lines, and exploration of new business relationships that will facilitate domestic fittings' speed to market. Mills, Trinity, and TFA offer these proposals with the understanding that the actions described can only be undertaken if the President implements substantial and meaningful relief over the next four years. Measures of that nature would permit these firms to implement their proposals and hasten their adjustment to import competition.

Effective relief measures would facilitate the efforts of the domestic industry to make a positive adjustment to import competition by undertaking the commitments

¹⁵ *Id.*

described herein. As discussed in Section II, *supra*, the relentless import competition faced by U.S. producers of BWPF caused these producers and their lenders to lose confidence in the ability to achieve a favorable return on capital investments that, paradoxically, would enhance their ability to compete with these imports. Measures that provide domestic producers a substantial respite, for a reasonable period of time, from the increasing volumes of low-priced imported BWPF, will create an opportunity for domestic producers to regain the lost market share and profitability that will fuel capital investment and other positive adjustment actions.

A. Mills Iron Works, Inc.

Assuming that effective relief from imported BWPF is granted as a result of the Section 201 investigation, Mills would [

]

All of these capital expenditures will allow Mills to move [

] and to use its strength in this area to compete more effectively.

If relief is granted and foreign fittings priced from 20 to 40 percent below domestic fittings are no longer ubiquitous in the market, Mills believes that it will be able

to [

]

In addition, if relief is granted, there will be greater opportunities for Mills to [

]

Mills is confident that if it is provided the opportunity to develop these types of programs, and establish an advantage in [] it can overcome the dominance of price as the chief purchasing determinant for distributors.

B. Trinity Fitting Group, Inc.

If domestic producers of BWPF are provided effective relief as a result of the Section 201 investigation, Trinity would undertake the following adjustments:

1. Trinity would [

]

2. Trinity would [

]

3. [

]

4. Trinity would [

] This process would, in turn, provide workers in areas of high unemployment with job skills and health and retirement benefits.

C. Tube Forgings of America, Inc.

If domestic producers of BWPF are provided substantial and meaningful relief as a result of the Section 201 investigation, TFA would be prepared to [

]

TFA's investment targets are as follows:

1. TFA would [

]

2. TFA would [

]

3. TFA would [

]

IV. Conclusion

On behalf of Mills, Trinity, and TFA, we appreciate the opportunity to submit these comments. The ability of U.S. fittings producers to implement adjustment actions in the short term, and their very survival in the long term, will be jeopardized if

meaningful relief is not granted. Waves of imports and their oppressively low prices have forced most major butt-weld fitting manufacturers in the U.S. to cease production. Only a small group remains. Conditions have forced the remaining manufacturers to curtail the major capital investments necessary to compete with imports. Without concrete, effective relief measures, we may soon see the demise of the remaining U.S. fitting manufacturers. With the President's assistance, this regrettable result can be avoided, and the vitality of this industry can be resurrected.

We urge the TPSC to incorporate the proposals on adjustment actions described *supra* in its recommendation to the President.

Respectfully submitted,

/s/

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